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DEPARTMENT OF THE AIR FORCE  
HEADQUARTERS UNITED STATES AIR FORCE  
WASHINGTON 25, D. C.

DPD-6011-59

#548

REPLY TO:

Auditor General  
Comptroller, USAF  
Eastern District  
Liaison Office  
P.O. Box 8155,  
Washington, D. C.

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8 September 1959

SUBJECT: Advisory Report on Use of Fixed Pricing Formulas  
Lockheed Aircraft Corporation  
Burbank, California  
Contract No. SP-1917 *File Group Sec*

TO : Contracting Officer

REF : (a) Audit Liaison Office Document No. 428  
(b) Audit Liaison Office Document No. 324  
(c) DPD-0909-59  
(d) DPD-0867-59, Customer #1  
(e) DPD-0866-59, Customer #2

1. Purpose of Examination. An examination has been made of the contractor's records to determine the reasonableness of its use of fixed pricing formulas.

2. Scope of Examination. Five (5) priced exhibits, representing 96% of the total costs contained in the eight exhibits submitted per Reference (d); and eight (8) priced exhibits, representing 85% of the total costs contained in the seventeen exhibits submitted per Reference (e), were selected for test. Costs of the tested items were traced to purchase orders and paid invoices. Average labor rates were computed and compared with base rates approved by the Contracting Officer and used in the pricing formula.

3. Results of Examination. It is the opinion of the auditor that the contractor's procedure for pricing out purchase parts is acceptable,


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inasmuch as it permits the use of actual rather than estimated costs. For pricing out contractor-fabricated materiel, labor costs are computed from estimated hours and are subject to technical rather than accounting determination. Therefore, while Contracting Officer-approved rates are used, evaluation of the use of the pricing formula here would be contingent upon the accuracy of the contractor's labor estimates. These could be checked periodically by customer technicians if this factor became significant enough. Currently labor and overhead comprise less than 20% of the total costs in the contract.

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Audit Liaison Officer  
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